



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit
Single Business Tax Program Within the Return
Processing and Customer Contact Divisions
Department of Treasury

Report Number:
 27-240-02

Released:
 April 2004

All persons and entities engaged in business activity within Michigan may be subject to the single business tax (SBT) in accordance with the SBT Act of 1975. All SBT collected is credited to the State's General Fund. The Return Processing Division (RPD) administers the SBT Act for consistent and uniform compliance by the persons subject to SBT. The Customer Contact Division (CCD) provides resolution of customers' SBT inquiries and registers and licenses new businesses.

Audit Objectives:

1. To assess the effectiveness and efficiency of RPD's management controls over the administration of the SBT Program.
2. To assess the effectiveness and efficiency of CCD's management controls over the resolution of taxpayer and practitioner inquiries and the performance of its business registration functions pertaining to the SBT Program.
3. To assess RPD's and CCD's compliance with applicable statutes, rules and regulations, and Department policies and procedures pertaining to the SBT Program.

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Audit Conclusions:

1. RPD's management controls over the administration of the SBT Program were marginally effective and efficient.

2. CCD's management controls were generally effective and efficient in resolving taxpayer and practitioner inquiries and performing its business registration functions pertaining to the SBT Program.
3. RPD and CCD generally complied with applicable statutes, rules and regulations, and Department policies and procedures pertaining to the SBT Program.

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Material Conditions:

RPD had not established effective management controls to minimize the risk of unauthorized access to and use of the SBT System (Finding 1). In addition, CCD had not established effective management controls related to Michigan Taxpayer Database (MTDB) system access and security (Finding 8). By establishing effective management controls over user access to its systems, RPD and CCD could minimize the risk that such users

inappropriately use their access to modify critical system information or obtain personal taxpayer information and use it to commit financial crimes, such as identity fraud or fraudulent refunds.

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Reportable Conditions:

In addition to the 2 material conditions, our audit disclosed 7 reportable conditions, including:

RPD needs to improve its process for ensuring that taxpayers file annual tax returns and remit the appropriate SBT as required by the SBT Act. Also, RPD needs to notify taxpayers of its intent to assess SBT when the taxpayers have not responded to delinquency notices within the required 30 days. (Finding 2)

RPD needs to improve its procedures to reduce the payment of interest on refunds. Also, RPD needs to change its policy and eliminate its practice of paying interest on undeliverable refund warrants. (Finding 3)

RPD needs to improve its management controls over the refund approval process to ensure the propriety and validity of SBT refunds (Finding 4).

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Noteworthy Accomplishments:

RPD established Internet filing for some of its SBT annual returns. RPD expects the Internet filing to increase SBT return accuracy and completeness and to reduce the need for data entry resources.

CCD had taken steps to resolve correspondence ineffectiveness and inefficiencies by implementing a detailed strategy and technology improvement plan to improve the call center and ensure timely response to customer inquiries.

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Agency Responses:

Our audit report contains 9 findings and 11 corresponding recommendations. The Department of Treasury's preliminary response indicated that it agrees with the 11 recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General